"The Budget and You"

HOW YOUR TAXES AND SAVINGS HELP TO WIN THE WAR

Issued by
NATIONAL WAR FINANCE COMMITTEE
CANADA

Foreword

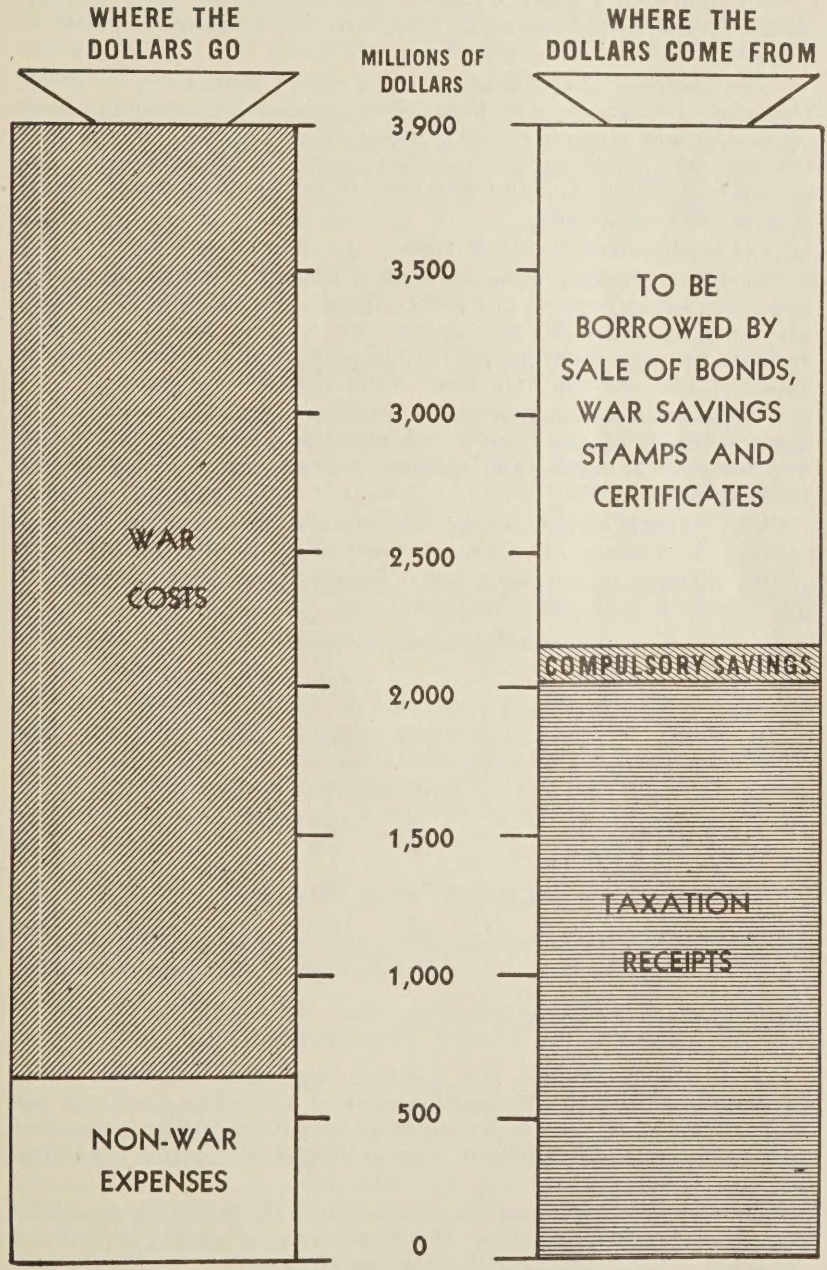
Today, we are faced with the biggest job we have ever tackled—the job of beating Germany, Japan and their allies—the job of winning this struggle for survival.

War is now our biggest and most important business—a business which costs money—money in sums so large they stagger the imagination. This money must be raised by taxation and borrowing.

This Booklet presents a brief review of Canada's Fourth Wartime Budget, and shows how our taxes and savings help to win the war.

August, 1942.

CANADA'S BUDGET
YEAR ENDING MARCH 31, 1943



The New Budget

On June 23rd, Canada's Fourth Wartime Budget was presented in the House of Commons by the Hon. J. L. Ilsley, Minister of Finance.

The contents of this Budget are of direct importance to every Canadian. First, because they afford new and forceful evidence of the vast and growing size of Canada's War Effort. And, second, because they show the tremendous financing problems involved in our War Effort, and the way each of us can help our Country to meet these problems.

Let's take a look at the Budget.

For the current financial year, ending March 31, 1943, expenditures are forecast at $3,900 millions, of which $3,330 millions are for war, and $570 millions for non-war purposes. Taxation receipts are estimated at $2,050 millions—equal to over 50% of expenditures—leaving borrowing needs of $1,850 millions.

These enormous expenditures, revenues, and borrowing needs are the largest in our history. Expenditures this year are nearly 7 times pre-war levels, and taxation receipts this year are over 4 times pre-war levels.

The following table shows the amount of war and non-war outlay, the amount of taxation receipts, and the borrowing needs of our Country in the last pre-war financial year ended March 31, 1939, and in each year thereafter:

(Dollar Figures in Millions)

	Year Ending March 31				
Item	1939	1940	1941	(1) 1942	(2) 1943
	$	$	$	$	$
Outlay					
For War Needs	34	235	1,186	2,479	3,330
For Non-War Needs	540	569	494	548	570
Total Outlay	574	804	1,680	3,027	3,900
Less:					
Taxation Receipts	499	534	857	1,462	2,050
Leaves Borrowing Needs of	75	270	823	1,565	1,850

(1) Preliminary (2) Budget

These figures reflect the distance we have travelled since September, 1939, in the mobilization of Canada's resources for war. That is, our dollar expenditures for war are really a measure of the number and quantity of men and materials Canada is putting into the fight.

By way of comparison, the War of 1914-18, including demobilization, cost Canadians about $1,670 millions, or about one-half the expected expenditure for war in this year alone.

In September, 1939, Canada had only 11,000 men in her armed forces, and practically no war industry.

Today, Canada's active Navy, Army and Air Force number nearly 500,000, and many thousands more are enlisted in reserve units.

Since September, 1939, we've built new industries, and enlarged established industries, and, today, we're producing vast and ever-increasing quantities of war weapons, munitions, and foodstuffs. In fact, over 40% of Canada's production is now being used for war purposes—with the level of 50% looming over the horizon. War weapons and munitions made in Canada are in use by the armed forces of the United Nations in practically every theatre of war in the world.

Economic Background

Up to the latter part of 1941, increased production carried not only the burden of Canada's War Effort but also enabled some improvements in our general standard of living. This was made possible by the fact that Canada, as a result of the great depression of the 1930's, entered the war with large idle supplies of labour, materials, and plant equipment.

Today, shortages of labour, machines, and an ever-increasing number of essential commodities exist or threaten, and civilian use of an ever-increasing number of goods and services is being restricted or stopped.

This means expansion in Canada's War Effort from now on, and even continuance of operations at the present rate in some sectors, must be made largely at the expense of our living standards. More and more of the labour, materials and machines now being used to meet our needs and wants must be switched over to war use.

Three Basic Problems

Under the conditions which face Canada today, our spending as individuals involves three basic problems.

First, we've got to make sure our spending as individuals doesn't compete with government spending for war purposes.

Or, put in another way, we can all help to clear the way for the continued building up of our War Effort by cutting down our spending—this automatically makes available to war use supplies of men and materials which otherwise would be engaged in meeting our demands for goods and services. That is, every dollar we pay in taxes—every dollar we save through voluntarily postponing our spending—helps to strengthen our War Effort.

Second, we've got to make sure our spending as individuals, on the dwindling supply of goods and services left over for our use after current war needs, does not compete unfairly with the spending of our fellow-Canadians, and result in an unfair distribution of available supplies.

Expressed in other words, this means the reduction of our individual spending to absolute essentials will help to make sure everybody gets their fair share of available supplies, and will help to keep down the need for rationing, which is an expensive and cumbersome system of distribution we force our government to employ when we struggle to buy more than our fair share of things, and don't self-ration ourselves.

Third, we've got to make sure our spending as individuals doesn't put unbearable upward pressure on the price ceiling, threatening us with "black markets" or the possibility of runaway prices, with all that means in terms of upheaval and personal misery.

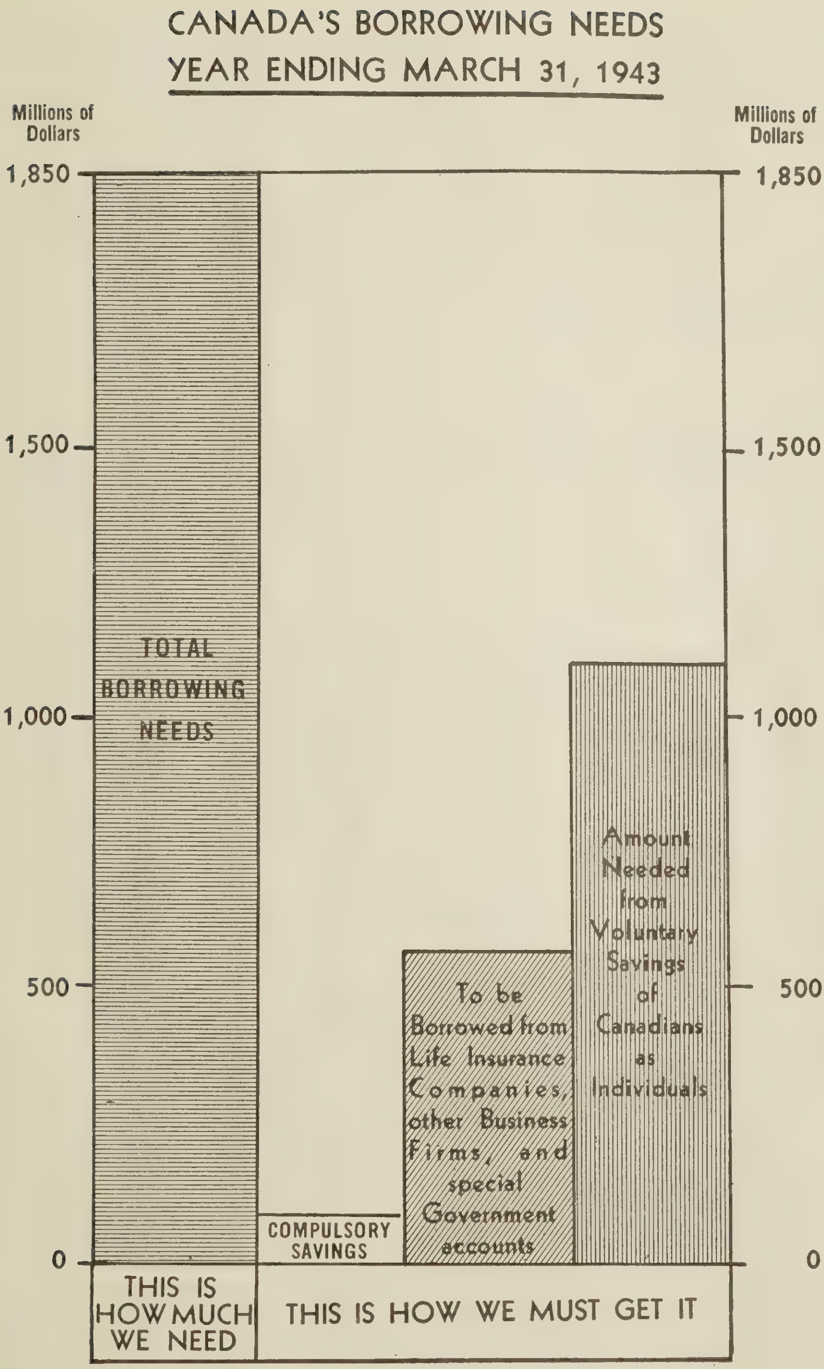
In short, the second and third problems simply mean we've got to fight inflation. Inflation—the enemy on the home front—could slow down and possibly disrupt our War Effort, would result in a grossly unjust distribution of war costs, would mean great hardships and personal misery for many people, particularly those with small and fixed incomes—and, would leave us with a fearful legacy of problems and upheaval in the post-war years.

To meet and beat these problems, in the best and most efficient way, we've got to voluntarily cut our spending on everything not absolutely essential to our health and efficiency. This means we've not only got to pay our taxes—but, we've also got to save every cent we possibly can, and lend these savings to our Country for war use. The alternatives are more rationing and other governmental controls or inflation, or, perhaps both.

Compulsory Savings

The new Budget raised taxes on corporate profits to new high levels, raised taxes on several kinds of luxury goods, and made far-reaching changes in the rates and methods of payment of personal income taxes. Further, the Budget introduced a new feature in the form of a Minimum Savings Requirement—or Compulsory Savings, as it has become known.

Under the new personal income taxes, part of our total taxes is returnable to us. In the case of persons with modest incomes, this returnable part equals one-half of total taxes. The returnable part of total taxes need not be paid at all to the extent we make payments in 1942 in the form of premiums on life insurance or annuities, principal payments on a mortgage, and payments into a retirement, or pension fund. However, we must pay the returnable part of total taxes to the extent it is not offset by these types of savings, but any amount we pay on account of this returnable portion will be paid back to us after the war with interest at 2%.


CANADA'S BORROWING NEEDS
YEAR ENDING MARCH 31, 1943
Millions of Dollars
Millions of Dollars
1,850
1,500
1,000
500
0
TOTAL BORROWING NEEDS
COMPULSORY SAVINGS
To be Borrowed from Life Insurance Companies, other Business Firms, and special Government accounts
Amount Needed from Voluntary Savings of Canadians as Individuals
THIS IS HOW MUCH WE NEED
THIS IS HOW WE MUST GET IT

In operation, this returnable tax feature amounts to a Minimum Savings Requirement—a form of Compulsory Savings—which assures that everyone during the war years saves a reasonable minimum amount without creating undue hardship for those of us who are obligated to save amounts by way of life insurance, annuities, mortgages, or pension funds.

Introduction of Compulsory Savings does not mean our Country will be able to meet its borrowing needs without voluntary savings by the public. On the contrary, while Compulsory Savings makes everybody save something, the need for voluntary savings is greater than ever before.

Need for Voluntary Savings

During the present financial year, ending March 31, 1943, expenditures for war and non-war purposes will exceed taxation revenue by about $1,850 millions. These borrowing needs will be met to the extent of less than $100 millions from Compulsory Savings, leaving over $1,750 millions to be covered through other borrowing.

At least $1,200 millions of these borrowing needs should be covered out of the voluntary savings of the Canadian people as individuals—the balance to be obtained largely through insurance companies and other business corporations. This amount of $1,200 millions is equal to over $100 per year, or 30 cents per day, for each man, woman, and child in Canada. 30 cents per day may not seem much but it's far more than our average savings right now.

In Canada, 9 out of every 10 people who are employed earn less than $2,500 per year, and, in total, they earn something over 75% of all wages, salaries and other forms of income received by Canadians. With taxes at present levels, and with the bulk of income accruing to those with modest incomes, no great fraction of governmental borrowing needs can be covered from the voluntary savings of individuals with incomes of more than $3,000 or $4,000 per year. In fact, it has been estimated that if all individuals in Canada getting over $3,000 per year kept only $1,000 each for living expenses, paid their taxes, and then lent all the rest of their incomes to the government, this would produce less than $400 millions towards our borrowing needs.

Individually, persons with incomes of over $3,000 or $4,000 per year must greatly intensify their savings effort—but, the total of their voluntary savings will be limited, as we have seen, by the smallness of their numbers.

This means the bulk of voluntary savings must come from those of us with modest incomes—especially persons in families whose incomes have gone up due to war conditions. Individually these savings may not seem large, but, in total, they can reach a huge amount.

We Can Do The Job

Under the pressure of vast war expenditures, the aggregate income of Canadians is reaching levels which would have seemed impossible a few years ago—or even in the palmy days of 1929. From our everyday knowledge of business conditions, we know more people are working—longer hours are being worked—and more is being produced than ever before. In fact, it's estimated the total of all incomes has increased over 70% since 1938.

We have the money to pay our taxes at the new Budget rates, and we can save enough money to meet the borrowing needs of our Country. But, there's no easy way to win this war, and there's no easy way to pay for this war.

To build up our War Effort to peak strength—to meet these taxes and borrowing needs—the great majority of us have simply got to cut our living standards. This doesn't mean we'll be ill-fed, ill-housed, or ill-clothed,—but, it does mean we must cut our spending to the bone.

When we voluntarily cut our living standards by making an all-out savings effort—a maximum savings effort beyond the level of Compulsory Savings imposed on us by the new Budget—we help to clear the path for the continued building up of our War Effort—we help to beat the forces of inflation which threaten us on the home front—and, we help to hold down the need for further governmental control of our daily lives and business activities.

Inflation can be avoided, rationing and other governmental controls can be held to a minimum if *—and only if*—each of us willingly does his fair share of the job.

Any sacrifice we may have to make for Victory is insignificant beside the sacrifices involved in defeat.

Victory may be costly, but our freedom is priceless.

Double Duty Dollars

Dollars saved during the war years, and lent to our Country, are double duty dollars.

Right now, they enable our government to buy guns, planes, ships and tanks needed to protect not only our homes, and our way of life, but also to protect our very lives. When the war is over, these savings will be available for our personal use to buy the things we need and want.

Spending of our wartime savings after the day of Victory will help to revive peacetime business and to give regular employment to our fellow-Canadians who are now in the armed forces, in war-time industry, and in other phases of war work.

Last—but far from least—wartime savings will be available as a reserve to meet any emergency needs for cash—a type of reserve which everybody needs for security and happiness.

Payment of Personal Income Taxes

Following are some questions and answers of general interest dealing with the time and method of payment of the new personal income taxes.

Question: When will we pay our taxes on our 1942 income?

Answer: In the case of wage and salary earners, taxes on 1942 income will be paid, for the most part, by regular deductions from pay over the 12 months from September 1, 1942 to August 31, 1943. Every employer is required by law to make a deduction for taxes each payday from the pay of each employee who is subject to tax. In addition, the law tells the employer the amount of tax which must be deducted from each employee's pay.

In September, 1943, each taxpayer who is a wage or salary earner must file an Income Tax Return with the government showing his total income for 1942, the total taxes due on his income, and the amount of taxes already paid through deductions from pay. If the taxpayer still owes a portion of his tax, he will pay it at that time. On the other hand, if more has been paid than is due, the taxpayer will file a claim with the government for refund of the over-payment.

Taxpayers, other than wage and salary earners, are now required to pay their taxes by quarterly instalments. The first payment under this scheme is due on October 15th of this year. Later instalments are due in January, April and July, 1943. Taxpayers in this group must file their 1942 Income Tax Return with the government by the end of April, 1943.

Question: Must employees file any form with their employer before the new income tax comes into effect on September 1, 1942?

Answer: Yes. Employees should complete and file Form TD 1 with their employer as soon as possible and, in any event, not later than September 1. However, this Form is not required from single persons with no dependents who are making no savings payments of the kinds which are allowed as an offset against the Compulsory Savings part of income taxes.

With the information set out on Form TD 1, employers can determine the rates of tax and tax exemptions for each employee. This form indicates whether the employee is single or married, how many dependents he has, and in addition, shows the amount, if any, of his payments in 1942 by way of premiums on life

insurance and annuities, payments to retirement or pension funds, and principal payments on a mortgage or agreement of sale on one residential property.

If this Form is not filed with employers, employees may not get all the exemptions from tax to which they are entitled. Form TD 1 is now available to employees, through their employer, from post offices or at local Income Tax offices.

Question: Must taxes deducted from the pay of wage and salary earners be sent to the Government by employers?

Answer: Yes. Every employer is bound by law to make the tax deductions from the pay of his employees, and the amounts which are deducted must be sent to the government within one week.

Question: What classes of our savings in 1942 are allowed as offsets against that part of our taxes which is returnable to us, that is, against our Compulsory Savings obligation?

Answer: Income taxes fall into two parts. First, there is the part that is returnable to the taxpayer, and second, the part that is *not* returnable to the taxpayer. The part that is returnable—the Compulsory Savings part—need not be paid at all by the taxpayer to the extent it is offset by payments in 1942 on

First, premiums on life insurance policies and annuities;

Second, principal payments on a mortgage or agreement of sale on one residential property; and

Third, payments into any superannuation fund, retirement or pension plan.

Form TD 1 which employees should file with their employers before September 1 will show the amount of these savings payments being made in 1942 by the taxpayer. The tax deductions from pay to be made by employers over the 12 months from September 1, 1942, to August 31, 1943, will be reduced by the amount of these savings payments.

Question: Some Union dues entitle a member to share in pension or insurance benefits. May these dues be used as an offset against the refundable tax?

Answer: Yes. But, only to the extent that these dues cover payment on account of a pension plan or a premium on insurance.

Question: What allowance is being made in our income taxes for medical expenses?

Answer: There is no special allowance for medical expenses which are equal to, or less than, 5% of the taxpayer's income. However, subject to certain limitations, an allowance will be made

for that portion of medical expenses which exceed 5% of the taxpayer's income.

These medical expenses must have been incurred and paid in 1942, or paid in 1942 and incurred within one year prior to the date of payment.

These expenses are allowable only if payment is made to a doctor, dentist, or nurse, or to a public or provincially licensed private hospital on behalf of the taxpayer, his wife or any person dependent on him. Under certain conditions, these expenses may include the wages paid to one full-time attendant.

This allowance takes the form of a deduction from taxable income—not a deduction from taxes. And, the tax adjustment for this allowance will be made at the time of filing of the 1942 Income Tax Return. That is, it will not affect the amount of taxes to be paid by pay deductions.